FPI and COVID-19

What is the issue?

Foreign Portfolio Investors will resume their purchases of Indian equities if the second wave of COVID-19 pandemic is controlled.

How does global markets perform?

- Due to monetary easing of Central Banks- Federal Reserve, European Central Bank (ECB) - the global liquidity is likely to be robust through 2021.
- In the recent policy meeting, US Federal Reserve promised to continue buying at least $80 billion of treasury securities and $40 billion of mortgage-backed securities.
- This purchase happens every month until it is satisfied about the US economy reaching its employment and inflation goals.
- Also U.S. administration announced that it will add$1.9 trillion stimulus to the global pool of investible funds.
- The ECB has also stated that it will increase its bond purchases to address the volatile bond yields in the euro zone.
- With policy rates in the US and many other advanced economies remaining at ultra-low levels, there will be no dearth of funds for global equity markets.

How does Indian markets perform?

- The Indian equity market will not be able to benefit from these funds due to increasing uncertainty in economic outlook caused by the second wave of Covid-19.
- Last year due to the surge in global liquidity, the stock prices in India got a boost and sustained at high levels.
- But this year foreign portfolio inflows will become more erratic.
- This is evident from the net foreign portfolio outflows of ₹7,023 crore in the first week of May, following net outflow of ₹9,659 crore in April.
- Until March, foreign investors were optimistic about the revival in the Indian economy and the progress of the vaccination.
- This resulted in the net inflow of ₹55,742 crore in the first three months of

2021 but there is a steady deterioration in this view since April.

What can we infer?

- Global asset allocations is determined by the progress of the virus containment and the response of various governments.
- So the global funds have been flowing to US and EU markets, where the second wave of Covid-19 has been controlled effectively.
- When compared to India, equity markets in these regions has delivered superior returns.
- But the Indian equity market has not declined too sharply, despite FPI selling.
- Domestic investors, including high net worth individuals, who take long-term view, seems to be lending support to stock prices.
- If the second wave is controlled soon and the lockdowns do not extend for too long, the economy as well as stock prices can rebound, and FPIs may also resume their purchases of Indian equities.
- Also, with global liquidity continuing to be high, fund managers cannot afford to stay away from Indian stocks for long.
- Moreover, the strength in the Indian rupee is also likely to weigh positively with foreign investors.

Source: Business Line

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